

DEPARTMENT OF TRANSPORTATION
AUDITS AND INVESTIGATIONS

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April 10, 2009

Ms. Patricia Taylor
Executive Director
Madera County Transportation Commission
2001 Howard Road, Suite 201
Madera, CA 93637

Re: Madera County Transportation Commission
Audit of Indirect Cost Allocation Plan FY 2007/08
File No: P1190-0645

Dear Ms. Taylor:

We have audited the Madera County Transportation Commission's (MCTC) Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ended June 30, 2008, to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the Department of Transportation's (Department's) Local Programs Procedures (LPP) 04-10. The MCTC management is responsible for the fair presentation of the ICAP. The MCTC proposed an indirect cost rate of 37.43 percent of total direct salaries and wages, plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of MCTC. Therefore, we did not audit and are not expressing an opinion on MCTC's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material non-compliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by MCTC, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting principles prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of MCTC in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of the Overall Work Program (OWP), a review of MCTC's audited financial report for the FY ended June 30, 2006, and inquiries of MCTC personnel. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability, and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICAP as of November 29, 2007. Financial management changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into consideration MCTC's response dated January 23, 2009, to our draft report dated December 11, 2008. Our findings and recommendations, MCTC's response and our analysis of the response are detailed below. See Attachment II for a copy of MCTC's response.

AUDIT RESULTS

Based on audit work performed, MCTC's ICAP for the FY ended June 30, 2008, is presented in accordance with 2 CFR Part 225 and LPP 04-10, however we noted serious issues detailed below. The approved indirect cost rate is 37.43 percent of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates. Given the results of our audit, it is our recommendation that MCTC be treated as a High Risk recipient of State and federal transportation funds in accordance with the provisions of 49 CFR 18.12. As detailed in the Findings and Recommendations to this report, MCTC failed to maintain an adequate financial management system that accumulates and segregates direct and indirect costs, project costs, and subcontractor costs. The MCTC should be considered a High Risk recipient until the MCTC has demonstrated compliance with Agreement provisions and State and federal regulations for a period of not less than one year from the date of this report. We further recommend that the Department increase oversight and monitoring of all transportation funds provided to MCTC.

Audit Findings

Finding 1

During our testing of project labor costs billed to the Department we identified several issues with the MCTC's billing and timekeeping procedures. We reviewed the direct labor billed to MCTC projects and found the following:

- Our initial testing of labor hours identified variances for four out of the five employees tested. We found the direct labor costs billed to the Department are not supported by timesheets. The labor billed did not reflect the actual hours on the timesheet as some hours billed were not reported on the timesheet, while other hours on the timesheets were not billed.
- Due to the issues above we expanded our testing. We found that MCTC's Labor Billing schedules for FYs 05/06, 06/07 and 07/08, which reflect costs billed to the Department, were not fully supported by the actual hours on the timesheets. In FYs 05/06, 06/07 and 07/08 we found MCTC moved hours between work elements (WE) for billing purposes, however, the changes in labor charges did not reflect the actual hours worked and hours on the timesheets. The labor hours moved between WE were over 700 hours in FY 05/06, over 200 hours in FY 06/07 and over 150 hours in FY 07/08. See Attachment I for Schedule of Claimed Hours and Timesheets Hours.
- Unresolved prior audit finding. This finding was reported in our audit report issued on June 12, 2003. We found that MCTC bills the Department using weighted/budgeted hourly rates, which include overhead costs and fringe benefit costs. Estimated fringe benefit costs and estimated production hours are used in the calculation of the weighted/budgeted rates. However MCTC does not perform a reconciliation of the weighted/budgeted rates to the actual costs to ensure that any over recoveries are reimbursed to the funding agency.
- Timesheet corrections were not properly authorized by employees as there were no initials by the employees indicating the approval of the change. During our review of timesheets for FYs 05/06, 06/07 and 07/08 we found there were no corrections to the timesheets in FY 05/06. However in FYs 06/07 and 07/08 we found two employees with material changes to the timesheets. One employee's timesheets showed FY changes of 52 percent and 25 percent, respectively. Another employee's timesheets showed changes of 36 percent and 2 percent, respectively.
- The Executive Director's timesheets were not properly signed by an authorized approver.

2 CFR Part 225, Appendix A, Section C, (1) (a), (b), and (j) states in part, to be allowable, costs must be necessary and reasonable for proper and efficient performance and

administration of Federal awards, be allocable to Federal awards, and costs must be adequately documented.

2 CFR Part 225, Appendix B, (8) (h) Support of salaries and wages, (1) states that charges to Federal awards for salaries and wages will be based on payroll documents approved by a responsible official(s) of the governmental unit. (4) states that where employees work on multiple activities or cost objectives a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8 (h) (5).

2 CFR Part 225, Appendix B, (8) (h) (5) states that personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (d) They must be signed by the employee.

49 CFR 18.2, (b) states in part, the accurate, current and complete disclosure of the financial results of federal financially-assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. It further states that accounting records must be maintained which adequately identify the source and application of funds provided for financially-assisted activities.

Recommendation:

We recommend that MCTC support all employee hourly rates used to ensure that the rates are a reflection of actual costs, MCTC reconcile the actual labor costs to the labor costs invoiced and reimbursed, and any over/under billings be repaid/reimbursed by/to MCTC.

We recommend that MCTC review all labor hours (costs) billed over the prior three years to ensure that the hours (costs) billed to each work element is based on the actual activities recorded on timesheets and the actual labor rates.

We recommend that MCTC develop stronger internal control procedures to ensure correct timesheet recording and that only direct labor charged to projects on the approved employee timesheets are billed to that specific project. We also recommend that the MCTC appoint an individual to review, sign, and approve the Executive Director's timesheets.

Because of the High Risk designation, we further recommend that MCTC be required to provide timesheets to the Department to support all labor hours billed with each invoice.

MCTC's Response:

In general, MCTC agreed with the finding. See Attachment II for detailed response.

Analysis of the Response:

MCTC agreed with the finding. On the use of a weighted/budgeted rate, MCTC disputes prior knowledge. Our records indicate that a copy of the report issued on June 12, 2003, was

forwarded to the Executive Director. In addition the Executive Director stated in a conversation with auditors on November 13, 2003, that MCTC has reconciled their productive hours to their actuals and found they under-billed. The finding and recommendation stand.

The Department is working with MCTC to determine the actual labor costs. MCTC should reimburse the Department the appropriate reimbursable amount and provide documentation supporting the repayment amount.

Finding 2

Our testing of other direct project costs billed to the Department identified the following issues with MCTC's billings:

- Other direct costs billed to the Department are not supported by MCTC's expenditure report, which should support claimed costs. We found other direct billed costs did not reflect actual expenses as some costs were not reported on the expenditure report and had no supporting receipt. In addition, reconciliation documents provided as support revealed further discrepancies, such as some costs were billed at 100 percent while other costs were billed at 88.53 percent.
- Other direct costs billed to the Department are not adequately supported by source documentation such as original receipt and/or vendor invoices; instead MCTC provided emails and credit card statements as support.
- A lodging amount claimed for reimbursement was in excess of the Department of Personnel Administration approved rates.

Our testing of costs included in the indirect cost pool identified the following issues:

- Our testing of indirect costs identified unallowable expenses included in the proposed indirect cost pool. Specifically the indirect cost pool included, general governmental expenses, such as board (commission) costs for conferences, travel and lodging expense and entertainment expenses for a spouse attending a CALCOG dinner.
- Our testing of six payments for conferences and training found that two had missing receipts, one had no hotel receipt, and one had no approval for payment.
- During our testing of travel costs we found that the travel costs for one employee were not approved.

2 CFR Part 225, Appendix A, Section C (1) (a), (b) and (j) states in part, to be allowable, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be allocable to Federal awards, and costs must be adequately documented.

49 CFR 18.20 (b) states in part, the accurate, current and complete disclosure of the financial results of federal financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. It further states that accounting records must be maintained which adequately identify the source and application of funds provided for financially-assisted activities.

MCTC Employee Handbook states that reimbursement expense reports must have a detailed receipt for expenses claimed.

Recommendation:

We recommend:

- MCTC establish procedures to ensure that the reports from the accounting and job costing system support the amounts billed and amounts reported in the ICAP.
- MCTC adhere to travel policies as written in the MCTC Employee Handbook.
- MCTC apply internal controls adequate to ensure proper approvals for travel and other expenditures.
- MCTC provide account reconciliations on a quarterly basis that identify any adjustments to account balances and journal entries made; and conduct budget versus actual analysis semi-annually to identify any variances and provide an explanation.
- MCTC modify the existing Chart of Accounts to include accounts to accumulate both unallowable direct and indirect costs.

Because of the High Risk designation, we recommend that MCTC be required to provide support documentation for all other direct costs billed with each invoice.

MCTC's Response:

See Attachment II for detailed response.

Analysis of the Response:

In general MCTC agreed with the finding and recommendation.

- MCTC's reconciliation from billed amounts to expenditure report showed variances that MCTC did not support or fully explain. MCTC should apply the local match appropriately and ensure that costs billed to the Department are fully supported. Further MCTC should be able to provide an audit trail from expenditure report to claimed costs.
- A reservation confirmation is not proof of an actual incurred cost and is not an adequate receipt. An email between MCTC employees stating the need for payment is also not proof of an actual incurred cost. While MCTC may elect to pay for costs above DPA rates, without proper approvals or an adequate receipt, the Department will not participate in such costs. Therefore, MCTC should refrain from claiming

direct or indirect costs that are above DPA rates, and/or not adequately approved or supported.

- MCTC did exclude the unallowable costs when they recalculated the ICAP.

Finding 3

We noted that MCTC's OWP WEs 900 and 904 include activities that are administrative and indirect in nature and should be treated as indirect costs. Specifically, the WE activities that appear to be administrative and indirect in nature are: WE 900 - financial management and reporting, program management, provide personnel management services; prepare grants and contracts and general administrative activities; and WE 904 - attend CALCOG meetings. These activities benefit more than one program/project of the MCTC and should be treated as indirect costs.

Directly charging administrative activities to State Transportation Improvement Plan (STIP) - PPM funded or Federal Highway Administration (FHWA) funded work elements will result in both the state and federal government paying a disproportionate share of indirect costs.

2 CFR Part 225, Appendix A, Section E, defines direct costs as costs that can be identified specifically with a particular final cost objective and Section F, defines indirect costs as those incurred for common or joint purposes benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefited.

Recommendation:

We recommend that in the future, MCTC's OWP segregates indirect from allowable, direct activities.

MCTC's Response:

In April 2008, MCTC amended its 2007-08 OWP to segregate indirect from allowable, direct activities. The MCTC will continue to segregate indirect from allowable, direct activities during the development of subsequent OWPs and Budgets.

Analysis of the Response:

MCTC agreed with the finding and recommendation. See Attachment II. MCTC should ensure that any indirect activities, prior to April 1, 2008, direct billed under WE 900 and 904, be reimbursed to the Department.

Finding 4

We noted that MCTC's OWP WE 901 includes activities that support the administration of Local Transportation Funds and State Transit Assistance Funds, however the major funding source for this WE are FHWA Planning funds.

An email dated April 2, 2008, from the Division of Transportation Planning, Office of Regional and Interagency Planning, states that pursuant to the California Transportation

Development Act, FHWA Planning funds cannot be used to administer Local Transportation Funds or State Transit Assistance Funds.

Recommendation:

We recommend in the future MCTC revise OWPs to identify that this WE be supported with only local funds. We further recommend that any charges made to this OWP be identified and such amounts be reimbursed to the Department.

MCTC's Response:

See Attachment II for detailed response.

Analysis of the Response:

MCTC agreed with the finding and recommendation; however MCTC recommends reimbursing the Department only a portion of the PL funds used for administration of a local program. MCTC is ultimately responsible for claiming the proper costs; therefore, MCTC should reimburse the Department the full \$72,855 and provide documentation supporting the repayment amount.

This report is intended solely for the information of the MCTC, Department Management, the California Transportation Commission, and the FHWA. However, this report is a matter of public record and its distribution is not limited.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 6, the Department's Division of Accounting, and the FHWA. If you have any questions, please contact Amada Maenpaa, Senior Management Auditor, at (916) 323-7868.



MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass Transportation
- Tom Marez, Accounting Administrator 1, Local Program Accounting Branch, Division of Accounting
- Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning, Division of Transportation Planning
- Steve Curti, Senior Transportation Planner, District 6
- James Perrault, Local Assistance Engineer, District 6

**Metropolitan Planning Organization (MPO)
Madera County Transportation Commission
Indirect Cost Plan**

Madera County Transportation Commission
2001 Howard Road, Suite 201
Madera, California 93637

April 8, 2009

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the Madera County Transportation Commission and approved by the Department.

SECTION 1: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/07 to 6/30/08	37.43%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2008 Budgeted Indirect Costs	\$ 196,000
Carry Forward from FY 2006	<u>5,056</u>
Estimated FY 2008 Indirect Costs	\$ 201,056
FY 2008 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$ 537,161
FY 2008 Indirect Cost Rate	37.43%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost

Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Madera County Transportation Commission

Signature: 

Reviewed, Approved and Submitted by:

Name of Official: Patricia Taylor

Title: Executive Director

Date of Execution: April 8, 2009

Signature: 

Prepared by:

Name of Official: Patricia Taylor

Title: Executive Director

Telephone No.: (559) 675-0721 extension 13

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature: 

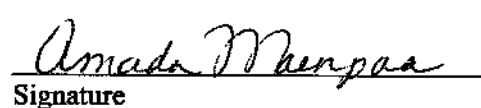
Reviewed and Approved by:

Name of Audit Manager: Mary Ann Campbell-Smith

Title: Chief, External Audits

Date: 4/9/09

Phone Number: (916) 323-7105

Signature: 

Reviewed and Approved by:

Name of Auditor: Amada Maenpaa

Title: Senior Management Auditor

Date: April 9, 2009

Phone Number: (916) 323-7868

Attachment 1
Madera County Transportation Commission
FY 2007-08 Budget

Salary & Benefits	Direct Costs	Indirect Costs	Total Costs
Salaries	\$367,800	\$0	\$367,800
Benefits	\$169,361	\$0	\$169,361
Total Salary & Benefits (Eligible)	\$537,161	\$0	\$537,161
Rent		\$60,000	\$60,000
Utilities		\$5,000	\$5,000
Telephone/Facsimile		\$4,000	\$4,000
Advertising/Publications		\$3,000	\$3,000
Office Supplies		\$7,500	\$7,500
Computer Supplies		\$2,000	\$2,000
Travel & Auto Allowance		\$4,000	\$4,000
Contracts (Copier)		\$11,500	\$11,500
Insurance & Bonds		\$4,000	\$4,000
Office Move		\$30,000	\$30,000
Conference/Training/Educat		\$6,000	\$6,000
MCTC Audits		\$30,000	\$30,000
Office Furniture/Equipment		\$19,000	\$19,000
Computer Equipment		\$5,000	\$5,000
Legal Services		\$2,500	\$2,500
Miscellaneous		\$2,500	\$2,500
Subtotal Indirect Costs		\$196,000	\$196,000
Carryforward		\$5,056	
Other Direct Costs (Ineligible)	\$388,034	\$0	\$388,034
Total Budget	\$925,195	\$201,056	\$1,126,251
Overhead Rate (Total Indirect Costs / Direct Salary & Benefits)			37.43%

Attachment 2

Madera County Transportation Commission Cost Carry Forward Provision

Fiscal Year	2003/04	2004/05	2005/06	Estimated 2006/07	Estimated 2007/08
Approved Overhead Rate	27.92%	32.43%	15.46%	9.13%	37.43%
Indirect Calculation					
Prior Year Carry Forward	\$0	\$0	(\$13,465)	(\$49,186)	\$5,056
Indirect Costs (per audit)	\$95,738	\$76,465	\$81,525	\$89,600	\$196,000
Less Unallowable Bd Mem Travel			(\$2,571)		
Less Unallowable Travel			(\$225)		
Total Indirect Costs	\$95,738	\$76,465	\$65,264	\$40,414	\$201,056
Direct Salary & Benefits (per audit)	\$391,130	\$387,452	\$389,441	\$442,484	\$537,161
Recovered Costs	\$109,203	\$125,651	\$60,208	\$40,399	\$201,059
Future Year Carry Forward	(\$13,465)	(\$49,186)	\$5,056	\$16	(\$3)

Schedule of Claimed Hours and Timesheet Hours

Fiscal Year 05/06

UNDER BILLED OVER BILLED UNDER BILLED OVER BILLED

Person	Quarter	WE	Timesheet Hours	Involved Hours	Variance (-)	Variance (+)	Variance \$ (-)	Variance \$ (+)	Major Fund source
E	1	112	76	68	-8		\$ (434)	\$ -	FHWA
E	1	150	16	0	-16		\$ (869)	\$ -	STIP PLG
A	1	201	136	144		8	\$ -	\$ 753	
B	1	201	72	112		40	\$ -	\$ 1,799	
B	1	900	32	24	-8		\$ (360)	\$ -	
B	1	901	8	16		8	\$ -	\$ 360	
B	1	910	160	128	-32		\$ (1,439)	\$ -	
Total			500	492	-64	56	\$ (3,102)	\$ 2,912	
D	2	113	0	8		8	\$ -	\$ 491	FHWA
D	2	120	40	32	-8		\$ (491)	\$ -	FHWA
C	2	100	11	6	-5		\$ (201)	\$ -	FHWA
C	2	113	3.5	3	-0.5		\$ (20)	\$ -	FHWA
C	2	120	83.5	84		0.5	\$ -	\$ 20	FHWA
C	2	130	201	172	-29		\$ (1,167)	\$ -	
C	2	150	9	10		1	\$ -	\$ 40	STIP PLG
Total			348	315	-42.5	9.5	\$ (1,879)	\$ 551	
C	3	120	42	50		8	\$ -	\$ 322	FHWA
C	3	130	401	240	-161		\$ (6,479)	\$ -	
C	3	140	11	164		153	\$ -	\$ 6,157	FHWA
C	3	150	4	1	-3		\$ (121)	\$ -	STIP PLG
A	3	151	8	0	-8		\$ (753)	\$ -	
A	3	200	48	56		8	\$ -	\$ 753	FHWA
A	3	900	72	64	-8		\$ (753)	\$ -	
A	3	901	46	54		8	\$ -	\$ 753	
Total			632	629	-180	177	\$ (8,105)	\$ 7,984	
A	4	100	64	28	-36		\$ (3,388)	\$ -	FHWA
D	4	100	72	100		28	\$ -	\$ 1,718	FHWA
C	4	100	38	54		16	\$ -	\$ 644	FHWA
C	4	110	100	127		27	\$ -	\$ 1,086	FHWA
C	4	111	7	9		2	\$ -	\$ 80	FHWA
C	4	113	74	88		14	\$ -	\$ 563	FHWA
A	4	120	6	14		8	\$ -	\$ 753	FHWA
A	4	121	25	17	-8		\$ (753)	\$ -	FHWA
D	4	121	48	32	-16		\$ (982)	\$ -	FHWA
A	4	130	41	69		28	\$ -	\$ 2,635	
B	4	130	80	0	-80		\$ (3,598)	\$ -	
C	4	130	148.5	0	-148.5		\$ (5,976)	\$ -	
B	4	140	16	0	-16		\$ (720)	\$ -	FHWA
C	4	140	14	136		122	\$ -	\$ 4,909	FHWA
A	4	150	42	58		16	\$ -	\$ 1,506	STIP PLG
D	4	150	52	40	-12		\$ (736)	\$ -	STIP PLG
B	4	150	64	104		40	\$ -	\$ 1,799	STIP PLG
C	4	150	68	37	-31		\$ (1,247)	\$ -	STIP PLG
B	4	151	32	56		24	\$ -	\$ 1,080	
A	4	200	47	55		8	\$ -	\$ 753	FHWA
B	4	200	16	56		40	\$ -	\$ 1,799	FHWA
A	4	201	38	49		11	\$ -	\$ 1,035	
A	4	900	25	1	-24		\$ (2,258)	\$ -	
A	4	901	51	40	-11		\$ (1,035)	\$ -	
B	4	901	176	136	-40		\$ (1,799)	\$ -	
A	4	910	48	56		8	\$ -	\$ 753	
B	4	910	0	48		48	\$ -	\$ 2,159	
Total			1392.5	1410	-422.5	440	\$ (22,492)	\$ 23,272	
Total FY 05/06			2872.5	2846	-709	682.5	\$ (35,579)	\$ 34,719	

Schedule of Claimed Hours and Timesheet Hours

Fiscal Year 06/07

UNDER BILLED OVER BILLED UNDER BILLED OVER BILLED

Person	Quarter	WE	Timesheet Hours	Invoice Hours	Subtotal (-)	Subtotal (+)	Variance \$ (-)	Variance \$ (+)	Major Fund source
F	1	113	16	8	-8		\$ (305)	\$ -	FHWA
C/F	1	100	16	96		80	\$ -	\$ 3,048	FHWA
E	1	111	24	16	-8		\$ (441)	\$ -	FHWA
Total			56	120	-16	80	\$ (746)	\$ 3,048	
B	2	200	184	200		16	\$ -	\$ 616	FHWA
B	2	201	8	0	-8		\$ (308)	\$ -	
B	2	900	48	56		8	\$ -	\$ 308	
E	2	111	0	112		112	\$ -	\$ 6,176	FHWA
E	2	112	112	0	-112		\$ (6,176)	\$ -	FHWA
Total			352	368	-120	136	\$ (6,484)	\$ 7,100	
G	3	113	104	108		4	\$ -	\$ 194	FHWA
G	3	120	52	48	-4		\$ (194)	\$ -	FHWA
G	3	130	65	66		1	\$ -	\$ 48	
F	3	130	152	160		8	\$ -	\$ 305	
A	3	120	12	0	-12		\$ (1,051)	\$ -	FHWA
A	3	200	106	118		12	\$ -	\$ 1,051	FHWA
A	3	901	8	12		4	\$ -	\$ 350	FHWA
A	3	904	4	0	-4		\$ (350)	\$ -	FHWA
Total			503	512	-20	29	\$ (1,595)	\$ 1,948	
B	4	900	72	48	-24		\$ (924)	\$ -	
B	4	901	112	136		24	\$ -	\$ 924	FHWA
Total			184	184	-24	24	\$ (924)	\$ 924	
Total FY 06/07			1095	1184	-180	269	\$ (9,749)	\$ 13,020	

Schedule of Claimed Hours and Timesheet Hours

Fiscal Year 07/08

UNDER BILLED OVER BILLED UNDER BILLED OVER BILLED

Person	Quarter	WE	Timesheet Hours	Invoiced Hours	Subtotal (-)	Subtotal (+)	Subtotal \$ (-)	Subtotal \$ (+)	Major Fund source
B	1	901	64	56	-8		\$ (295)	\$ -	FHWA
F	1	130	176	168	-8		\$ (261)	\$ -	
G	1	130	74	80		6	\$ -	\$ 276	
G	1	910	7.5	8		0.5	\$ -	\$ 23	
Total			321.5	312	-16	6.5	\$ (556)	\$ 299	
A	2	100	16	0	-16		\$ (1,327)	\$ -	FHWA
A	2	120	0	16		16	\$ -	\$ 1,327	FHWA
A	2	201	24	0	-24		\$ (1,990)	\$ -	
A	2	900	116	140		24	\$ -	\$ 1,990	
B	2	900	40	44		4	\$ -	\$ 147	
E	2	100	24	16	-8		\$ (456)	\$ -	FHWA
E	2	113	32	48		16	\$ -	\$ 912	FHWA
E	2	120	64	48	-16		\$ (912)	\$ -	FHWA
E	2	905	192	184	-8		\$ (456)	\$ -	BLUE PRT
F	2	130	188	196		8	\$ -	\$ 261	
F	2	140	52	44	-8		\$ (261)	\$ -	FHWA
G	2	130	61.5	62		0.5	\$ -	\$ 23	
G	2	140	105.5	106		0.5	\$ -	\$ 23	FHWA
G	2	910	36	42		6	\$ -	\$ 276	
Total			951	946	-80	75	\$ (5,403)	\$ 4,960	
A	3	900	131	126	-5		\$ (415)	\$ -	
A	3	904	19	24		5	\$ -	\$ 415	FHWA
B	3	900	236	248		12	\$ -	\$ 442	
B	3	901	128	120	-8		\$ (295)	\$ -	FHWA
E	3	150	40	32	-8		\$ (456)	\$ -	FHWA
E	3	900	40	48		8	\$ -	\$ 456	
F	3	100	72	80		8	\$ -	\$ 261	FHWA
G	3	113	50	54		4	\$ -	\$ 184	FHWA
G	3	130	54.5	55		0.5	\$ -	\$ 23	
G	3	140	104.5	107		2.5	\$ -	\$ 115	FHWA
G	3	910	83.5	86		2.5	\$ -	\$ 115	
Total			958.5	980	-21	42.5	\$ (1,165)	\$ 2,011	
A	4	130	8	16		8	\$ -	\$ 663	
A	4	140	8	0	-8		\$ (663)	\$ -	FHWA
B	4	200	96	104		8	\$ -	\$ 295	STIP/PLNG
B	4	900	40	32	-8		\$ (295)	\$ -	
E	4	100	38	44		6	\$ -	\$ 342	FHWA
E	4	112	16	18		2	\$ -	\$ 114	FHWA
E	4	900	110	102	-8		\$ (456)	\$ -	
F	4	100	63	55	-8		\$ (261)	\$ -	FHWA
F	4	130	89	97		8	\$ -	\$ 261	
G	4	110	37	39		2	\$ -	\$ 92	FHWA
G	4	111	16	18		2	\$ -	\$ 92	FHWA
G	4	112	34	35		1	\$ -	\$ 46	FHWA
G	4	113	49	45	-4		\$ (184)	\$ -	FHWA
G	4	140	59	60		1	\$ -	\$ 46	FHWA
G	4	910	67	65	-2		\$ (92)	\$ -	
Total			730	730	-38	38	\$ (1,952)	\$ 1,952	
Total FY 07/08			2961	2968	-155	162	\$ (9,076)	\$ 9,223	
Grand Total FY 06, 07 & 08					-927	989.5	\$ (47,279)	\$ 56,962	

January 23, 2009

MaryAnn Campbell-Smith, Chief
Caltrans Office of Audits and Investigations
Department of Transportation
P.O. Box 942874
Sacramento, California 94274

Subject: Draft Audit Findings – MCTC Response and Proposed Resolution Letter

Dear Ms. Campbell-Smith:

This letter is written in response to Caltrans Office of Audits and Investigations Draft Audit Findings Memo presented to the Madera County Transportation Commission (MCTC) staff on December 11, 2008. The following are MCTC's responses to the finding's recommendations, beginning with Finding 2 as Finding 1 is a summary of the findings; and MCTC's requested resolution to the findings. In addition, Appendix A, page 4, responds to each bullet described in the findings:

Finding 2

MCTC staff has undertaken an extensive review of both its processes/procedures for recording hourly labor costs recorded and billed over the prior three fiscal years (FY 05/06, 06/07 and 07/08) as well as the performance of those personnel responsible for recording and reporting of such costs. Our review revealed a specific problem with the performance of the individual directly charged with the responsibility for correctly entering timesheet data into the accounting system. Further, the system was flawed in that it did not provide for adequate oversight or validation of the data input procedure resulting in a failure to identify the problem sooner. The following steps have been taken to correct these problems:

1. A new staff position, Fiscal Supervisor, has been created and vested with direct responsibility for the labor accounting process to include timesheet data input/reporting and development of quarterly billing reports. This is a substantially higher level position than previously authorized, reporting directly to the Executive Director and with broad responsibilities for program budget development, monitoring and reporting. The staff person previously responsible for timesheet data input has been relieved of direct responsibility as well as any other direct fiscally related activities; therefore, will be providing support to the Fiscal Supervisor.
2. Timesheet data input will be verified in writing by the Fiscal Supervisor prior to issuance of payroll checks.
3. MCTC staff policy has been revised to specifically require any corrections, additions, or other changes to employee timesheets be initialed by the affected employee, and the employee's supervisor or Executive Director.
4. Per MCTC Policy Board direction, the Executive Director timesheets will be signed by the Deputy Director.

5. The MCTC acknowledges the "High Risk" designation and agrees to provide timesheets to support billed labor hours in future invoicing.
6. MCTC staff reconciliation of the accounting records versus invoiced and reimbursed costs indicates that adjustments may be required.

Finding 3

The MCTC agrees and will move to comply with these recommendations. The Fiscal Supervisor will be responsible for making any changes to the accounting system in order to accumulate both unallowable and indirect costs; provide account reconciliations on a quarterly basis that identify adjustments to account balances and journal entries; and provide a semi-annual analysis of budget versus actual to include a narrative report on variances. Commission staff agrees to provide support documentation for all other direct costs billed with each invoice while under high risk designation.

The Executive Director will take steps adequate to ensure compliance with current MCTC travel policy and will work with the Fiscal Supervisor to ensure that internal controls are adequate for proper approvals of travel and other expenditures.

Finding 4

The MCTC Policy Board at its April 2008 meeting amended the 2007-08 Overall Work Program to segregate indirect from allowable, direct activities. The MCTC will continue to segregate indirect from allowable, direct activities during the development of subsequent Overall Work Programs and Budgets.

Finding 5

The MCTC acknowledges inadvertently using PL funds for administration of LTF and STA. The MCTC received a comment from Caltrans District 06 staff during the development of the Draft 2008-09 Overall Work Program and Budget and MCTC staff reflected the comment in the 2008-09 Overall Work Program and all subsequent Overall Work Programs. It should be noted that, during the development of the 2005-06; 2006-07; and 2007-08 Overall Work Programs and Budget review and comment period there were no comments or references made by the reviewing agencies to the MCTC recommending any changes related to Work Element 901. In addition, all subsequent quarterly reports and overall work program and budget amendments were approved and not denied due to the ineligible use of funds.

Conclusion and Resolution Recommendation:

The MCTC appreciates the opportunity to respond to the findings. The MCTC agrees and understands it is appropriate to improve efficiencies and accuracies in our financial management system and has taken corrective action as necessary. As state previously, changes to our management system and ability to maintain an adequate financial management system has been addressed. The MCTC can assure State Audits that its recommendations are being implemented immediately and corrective action has taken place.

As a result of staff's extensive review of the MCTC accounting records, the MCTC is prepared to request the following recommendation and resolution:

1. MCTC acknowledges and accepts the "high risk" designation; however, the MCTC requests that it be conditional, lifting the designation after completion of the 2008-09 audit.

2. Staff's extensive review of 2005-06; 2006-07 and 2007-08 accounting records indicates that a total of \$85,686 may be in question over the three year period. The breakout is as follows:
 - a) \$72,855 or 85.03% identifies PL funds used for administration of a local program; and
 - b) \$12,831 or 14.97% is contributed to a combination of timesheet entry errors; billing on budget versus actual rates; and matching rates.

The MCTC takes responsibility for the use of PL funds for administration of the local transportation program. As stated previously in finding 5, the MCTC's Overall Work Program and Budget; amendments to the Overall Work Program and Budget and process of quarterly reports and reimbursements over the three year period were reviewed by several reviewing agencies with no reference to indicate incorrect use of PL funds. Therefore, MCTC is recommending that the MCTC reimburse a portion in the amount of \$18,214 or 25% of the \$72,855 in question. The MCTC accepts full responsibility for the \$12,831. Thereby, MCTC offers to repay in the amount of \$31,045.

3. The MCTC also requests that the negotiated amount be reduced from the MCTC PL carryover funds by \$31,045.

MCTC staff met with Caltrans District 06 staff and they are in support of MCTC's responses and requests to resolve the findings.

If you have any questions or require further documentation, please contact Troy McNeil at troy@maderactc.org or (559) 675-0721 extension 12 or me at patricia@maderactc.org or (559) 675-0721 extension 13. We are also willing to schedule a meeting to meet face-to-face if needed.

Sincerely,



Patricia Taylor, Executive Director
Madera County Transportation Commission

cc: Ken Okereke, Associate Transportation Planner, District 06
Steve Curti, Chief, Transportation Planning, District 06

Audit Findings

Finding 1

During our review of MCTC's financial management system we identified several issues with MCTC's ability to maintain an adequate financial management system which accumulates and segregates reasonable, allocable and allowable project costs. The issues are detailed further in Findings below. Due to the significance of the issues we recommend designating MCTC as a high risk agency. We identified the following:

- Direct labor costs billed to the department are not supported by the financial management system.
- Other direct costs billed to the Department are not supported by the financial management system.
- Indirect costs are paid without adequate support documentation

2 CFR 225, Appendix A C. 1. j. states that for a cost to be allowable the costs must be adequately documented.

49 CFR 18.20(b)(1), states in part that accurate, current and complete disclosure of the financial results of federal financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. It further states that grantees must maintain accounting records that adequately identify the source and application of funds provided for financially-assisted activities.

49 CFR 18.12(a) (3) states that a grantee or subgrantee may be considered "high risk" if an awarding agency determines that a grantee or subgrantee has a management system which does not meet the management standards set forth in this part.

Recommendation

See each recommendation below

Finding 2

During our testing of project labor costs billed to the Department we identified several issues with the MCTC's billing and timekeeping procedures. We reviewed the direct labor billed to MCTC projects and found the following:

- Our initial testing of labor hours identified variances for four out of the five employees tested. We found the direct labor costs billed to the department are not supported by timesheets. The labor billed did not reflect the actual hours on the timesheet as some hours billed were not reported on the timesheet, while other hours on the timesheets were not billed.

MCTC staff reviewed all timesheets referenced above and concluded that there were variances related to the direct labor costs billed to the department. The Executive Director has added another level of review and assigned the accountability of timesheets

to the Fiscal Supervisor prior to issuance of payroll checks. In addition, MCTC staff will provide timesheet documentation when billing the department.

- Due to the issues above we expanded our testing. We found that MCTCs Labor Billing schedule for fiscal year (FY) 05/06, 06/07 and 07/08, which reflect costs billed to the Department, were not fully supported by the actual hours on the timesheets. In FYs 05/06, 06/07 and 07/08 we found MCTC moved hours between work elements (WE) for billing purposes, however, the changes in labor charges did not reflect the actual hours worked and hours on the timesheets. The labor hours moved between WE were over 700 hours in FY 05/06, over 200 hours in FY 06/07 and over 150 hours in FY 07/08.

MCTC staff also reviewed the timesheets referenced above and concurs with the finding. Response to this finding is included in Response to Finding Recommendation 1 on page 1 and 2.

- Unresolved prior audit finding. This finding was reported in our audit report issued on June 12, 2003. We found that MCTC bills the Department using weighted/budgeted hourly rates, which include overhead costs and fringe benefit costs. Estimated fringe benefit costs and estimated production hours are used in the calculation of the weighted/budgeted rates. However MCTC does not perform a reconciliation of the weighted/budgeted rates to the actual costs to ensure that any over recoveries are reimbursed to the funding agency.

MCTC does not dispute the finding and recognizes that reconciliation is necessary. MCTC did not respond to the finding because MCTC was not appropriately notified and aware of the finding. MCTC does not have records of receiving the letter, dated June 12, 2003. The letter appears to have been an internal Caltrans memorandum written to Sharon Scherzinger, Chief, Office of Regional and Interagency Planning by Roy Rubiono, Auditor, and copied to the Commission and Caltrans District 06.

- Timesheet corrections were not properly authorized by the employee as there were no initials by the employee indicating the approval of the change. During our review of timesheets for 05/06, 06/07 and 07/08 we found there were no corrections to the timesheets in 05/06 fiscal year. However in fiscal year 06/07 and 07/08 we found two employees with material changes to the timesheets. One employee's timesheets showed fiscal year changes of 52% and 25%, respectively. Another employee's timesheets showed changes of 36% and 2%, respectively.

The MCTC did not have a policy in place that required the employee to initial timesheet corrections. MCTC staff policy has been revised to specifically require any corrections, additions, or other changes to employee timesheets be initialed by the affected employee, and the employee's supervisor or Executive Director. The staff person previously responsible for timesheet data input has been relieved of direct responsibility as well as any other fiscally related activities; therefore, will be providing support to the Fiscal Supervisor.

- The Executive Directors timesheets were not properly signed by an authorized approver.

The Executive Director is under contract with the MCTC and has operated according to the contract and did not deem it was necessary to have an authorized approver sign timesheets. However, the MCTC will now require the Deputy Director to sign the Executive Director timesheets.

2 CFR 225, Appendix A, Section C.1. a , b. and j.; states in part to be an allowable cost it must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be allocable to Federal awards and the cost must be adequately documented.

2 CFR 225, Appendix B. 8. h. Support of salaries and wages, (1) charges to Federal awards for salaries and wages will be based on payroll documents approved by a responsible official(s) of the governmental unit. (4) states, "Where employees work on multiple activities or cost objectives a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h. (5). 2 CFR 225, 8. h. (5) states, Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (d) They must be signed by the employee.

49 CFR 18.2, (b), states in part that the accurate, current and complete disclosure of the financial results of federal financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. It further states that grantees must maintain accounting records which adequately identify the source and application of funds provided for financially-assisted activities.

Recommendation:

We recommend that MCTC support all employee hourly rates used to ensure that the rates are supported and a reflection of actual costs. That MCTC reconcile the actual labor costs to the labor costs invoiced and reimbursed and that any over/under billings be repaid / reimbursed by/to MCTC.

We recommend that MCTC review all labor hours (costs) billed over the prior three years to ensure that the hours (costs) billed to each work element is based on the actual activities recorded on timesheets and the actual labor rates.

We recommend that MCTC develop stronger procedures to assure correct timesheet recording and should develop procedures to ensure that only direct labor charged to projects on the approved employee timesheets are billed to that specific project. We also recommend that the MCTC appoint someone to review, sign and approve the Executive Director's timesheets.

Because of the "High Risk" designation, we recommend that MCTC be require to provide timesheets to support all labor hours billed with each invoice.

Finding 3

Our testing of other direct project costs billed to the Department identified several issues with MCTC's billing. We found the following:

- Other direct costs billed to the department are not supported by MCTC's expenditure report, which should support claimed costs. We found other direct billed costs did not reflect the actual expenses as some expenses billed were not reported on the expenditure report and had no supporting receipt. In addition, reconciliation documents provided as support revealed further discrepancies such as some costs were billed at 100% while other costs were billed at 88.53%.

When developing the OWP Budget, MCTC staff identifies the various funding sources. PL funds are required to have a local match of 11.47%. The local match is a percentage of the total sum of the federal participation amount plus the required non-federal participation amount. The match is calculated work element-by-work element in MCTC's budget (expenditures by fund source). It is not a percentage of total federal funds in the OWP. Each work element in the MCTC's OWP and Budget reflects the mandatory local match by work element. MCTC bills quarterly and according to the allowable rate. There are times when PL paid 100% of an invoice but the overall quarterly report reimbursement request by work element does not exceed the allowable rate. Also, when staff developed its analysis for the purpose of the response to findings of this report, only costs supported were calculated into the analysis.

- Other direct costs billed to the Department are not adequately supported by source documentation such as original receipt and/or vendor invoices; instead MCTC provided emails and credit card statements as support.

The MCTC policy is to obtain a receipt for direct costs; however, it should be noted that there are times when a vendor only provides email receipts. The Commission does not view this as a rampant problem in the agency and is not abused. The Commission will not reimburse or pay what is not appropriate.

- The lodging amount claimed for reimbursement was in excess of the DPA approved rates.

The MCTC staff lodges at the location of meetings and/or conferences. The MCTC does not have DPA approved rates written in its policy; however, the policy states, "Employees should select moderately priced lodging convenient to their destination to minimize time and expenses and shall request government rates". The MCTC Executive Director and Fiscal Supervisor will incorporate the DPA rate information in its Employee Manual.

Also, our testing of costs included in the indirect costs pool identified several issues. We identified the following:

- Our testing of indirect costs identified unallowable expenses included in the proposed indirect cost pool. Specifically the indirect cost pool included, general governmental expenses, such as board (commission) costs for conferences, travel and lodging expense and Entertainment expenses for a spouse attending a Calcog dinner.

The MCTC addressed the unallowable expenses included in the indirect cost pool in its 2007-08 Indirect Cost Plan revision, dated April 17, 2008. As a part of MCTC's 2007-08 ICAP revised submittal the MCTC recognized the board member travel of \$2,571 and

unallowable travel of \$225 in its indirect calculation. The \$225 was also reimbursed to the MCTC by the employee for a Calcog dinner which was inadvertently overlooked.

- Our testing of six payments for conferences and training found that two had missing receipts, one had no hotel receipt, and one had no approval for payment.

This finding is referring to three board members that attended a Focus on the Future Conference. All three board members and employee had prior approval to attend the conference. The Policy Board was aware of the travel by the three board members and staff. The staff person accompanying the three board members received a receipt for his room and when paying the credit card, his receipt matched the three board member's room less parking as parking was later reimbursed to the three board members; therefore, the process of payment was documented with the staff receipt and reservation confirmation emails of the board members. The Fiscal Supervisor and Executive Director will review travel expense forms and reimbursement requests to ensure proper approvals and internal control for travel and other expenditures. The MCTC does require receipts and views this as an isolated occurrence.

- During our testing of travel costs we found that the travel costs for one employee was not approved.

The Policy Board was informed of travel to the Focus on the Future conference at its July and October 2005 meetings. The MCTC's executive director signs travel expense forms and recognizes that this one expense was not signed. However, the executive director also signs the expense checks in addition to an identified and appointed board member and reimbursement was made to the employee with approval at the time of execution of the reimbursement. The MCTC views this as a remote incident.

2 CFR 225, Appendix A, Section C.1. a., b. and j; states in part to be an allowable cost it must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be allocable to Federal awards and the cost must be adequately documented.

49 CFR 18.20 (b), states in part that the accurate, current and complete disclosure of the financial results of federal financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. It further states that grantees must maintain accounting records which adequately identify the source and application of funds provided for financially-assisted activities.

MCTC Employee Handbook states that reimbursement expense reports must have a detailed receipt for expenses claimed.

Recommendation:

We recommend:

- MCTC establish procedures to ensure that the reports from their accounting and job costing system support the amounts billed and amounts reported in the ICAP.
- MCTC adhered to their travel policies as written in the MCTC Employee Handbook.
- MCTC apply internal controls adequate to ensure proper approvals for travel and other expenditures.

- MCTC provide account reconciliations on a quarterly basis that identify any adjustments to account balances and journal entries made; and conduct budget versus actual analysis semi-annually to identify any variances and provide an explanation.
- We recommend that MCTC modify their existing Chart of Accounts to include accounts to accumulate both unallowable direct and indirect costs.

Because of the "High Risk" designation, we recommend that MCTC be require to provide support documentation for all other direct costs billed with each invoice.

Finding 4

We noted that MCTC's OWP work elements (WE) 900 and 904 include activities that are administrative and indirect in nature and should be treated as indirect costs. Specifically, the work element activities that appear to be administrative and indirect in nature are: WE 900 - financial management and reporting, program management, provide personnel management services; prepare grants and contracts and general administrative activities; and WE 904 - attend CALCOG meetings. These activities benefit more than one program/project of the MCTC and should be treated as indirect costs.

Directly charging administrative activities to State Transportation Improvement Plan (STIP) -PPM funded or Federal Highway Administration (FHWA) funded work elements will result in both the state and federal government paying a disproportionate share of indirect costs.

Directly charging administrative activities to Federal Highway Administration (FHWA) funded work elements will result in the FHWA paying a disproportionate share of indirect costs.

2 CFR 225, Appendix E, Section A. E. defines direct costs as costs that can be identified specifically with a particular final cost objective and F. defines indirect costs as those incurred for common or joint purposes benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefitted.

Recommendation:

We recommend that in the future, MCTC's OWP segregates indirect from allowable, direct activities.

The MCTC amended its 2007-08 Overall Work Program to segregate indirect from allowable, direct activities. The MCTC will continue to segregate indirect from allowable, direct activities during the development of subsequent MCTC's OWPs.

Finding 5

We noted that MCTC's OWP WE 901 includes activities that support the administration of Local Transportation Funds (LTF) and State Transit Assistance Funds (STA), however the major funding source for this WE are FHWA Planning funds.

A Memo dated April 2, 2008 from the Division of Transportation Planning, Office of Regional and Interagency Planning, Caltrans states that pursuant to the California Transportation Development Act, FHWA Planning funds cannot be used to administer Local Transportation Funds (LTF) or State Transit Assistance Funds (STA).

The MCTC did not receive a Memo from the Division of Transportation Planning, Office of Regional and Interagency Planning on April 2, 2008; however, Caltrans District 06 Planning staff did provide the comment during the Draft 2008-09 Overall Work Program comment period by email on April 1, 2008. The MCTC Policy Board adopted the 2008-09 Overall Work Program identifying local funds for Work Element 901, thereby incorporating Caltrans District 06s' comment.

Recommendation:

We recommend in the future MCTC revise OWP's to identify that this WE be supported with only local funds. We further recommend that any charges made to this OWP be identified and such amounts be reimbursed to the State.

The MCTC received this recommendation during its Draft 08-09 Overall Work Program review and comment period from Caltrans and reflected its recommendation in the 2008-09 OWP and all future OWPs.